

VZCZCXRO4486
PP RUEHROV
DE RUEHJM #2230/01 3470747
ZNR UUUUU ZZH
P 120747Z DEC 08
FM AMCONSUL JERUSALEM
TO RUEHC/SECSTATE WASHDC PRIORITY 3497
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 JERUSALEM 002230

SENSITIVE
SIPDIS

NEA/IPA FOR GOLDBERGER/LENTZ; EEB/IFD/OIA FOR CULLINANE;
TREASURY FOR AHERN
DEPT PLEASE PASS TO OPIC FOR VP RODNEY MORRIS
DEPT PLEASE PASS TO USAID FOR ME/MEA: NANDY/BORODIN

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [KWBG](#) [IS](#)
SUBJECT: OPIC PROMOTES POLITICAL RISK INSURANCE TO THE
PALESTINIAN MARKET

REF: JERUSALEM 916

11. (SBU) Summary: Overseas Private Investment Corporation (OPIC) officials discussed the Palestinian Political Risk Insurance (PPRI) project during a visit to Jerusalem and Ramallah in early December. PPRI, announced during the May 2008 Palestine Investment Conference in Bethlehem (reftel), would indemnify Palestinian exporters for penalties and fees incurred if products are delayed or damaged due to border or checkpoint closings or procedures. OPIC, in partnership with the Middle East Investment Initiative (MEII), aims to make the product available to West Bank businesses in mid-2009. End summary.

12. (SBU) OPIC Vice President Rodney Morris, James Williams, and Eric Jowett visited Jerusalem and Ramallah December 2-5 to advance the PPRI project, a partnership between OPIC and MEII to provide political risk and trade disruption insurance for West Bank exporters. The project is designed to protect against losses, including those suffered due to closings or delays at Israeli checkpoints or commercial crossings. OPIC's product is expected to be bundled with a traditional insurance policy that covers damage done to goods in transit. The insurance will be offered initially in the West Bank through the National Insurance Company (NIC), with the goal of including additional Palestinian insurance companies in the future. OPIC will reinsure NIC for most of the losses sustained under the program. OPIC believes affordable political risk insurance will enable Palestinians to expand export markets, generating additional business, and promoting job creation.

Palestinian traders don't do traditional business deals

13. (SBU) Business representatives emphasized the informal nature of business arrangements undertaken by West Bank exporters, given ongoing restrictions on the movement of goods within the West Bank and to Israel. OPIC noted that these informal arrangements present significant challenges in designing a trade disruption insurance policy. While a policy would normally insure against penalties or late fees assessed due to delay and/or damage, exporters told OPIC they rarely sign formal contracts with their buyers, and entirely avoid deals that involve late fees.

14. (SBU) Exporters also shy away from large-scale, long-term contracts (which are the most profitable) because of the uncertainties. Other traders said they do not begin negotiations on the final price of the goods until the shipment arrives at its destination and the buyer assesses the damage or delay. One businessman said that PPRI might

give him the confidence to seek out formal contracts with larger companies that would involve penalties, and that he could easily fulfill such orders. However, he said the credibility of his business remained his priority, and he would remain hesitant to take on larger deals without more consistent, formalized practices at the commercial crossings.

Damage and delay

¶5. (SBU) Although the rates vary by sector, shippers told OPIC that, on average, 10 percent of goods are damaged while going through the crossings. Agricultural producers did not report significant damage, but noted that delays at the crossings directly impact the shelf life and therefore the quality and value of their goods. OPIC noted that under the current system (with no third-party monitor), it could be difficult to determine whether the damage actually took place at the crossing or during other parts of the journey.

If we build it, will they buy?

¶6. (SBU) Traders and insurance contacts alike stated that increased awareness and education about insurance and the PPRI would be key to its success. They also noted that the restrictions on Palestinian movement and access have doubled or tripled the cost of exporting in recent years, and that they must carefully consider whether purchasing additional insurance is cost-effective for them.

¶7. (SBU) OPIC's efforts to advance the PPRI project follow

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the re-formulation of the World Bank's Multilateral Investment Guarantee Agency's (MIGA) political risk program. In early November, MIGA extended guarantee coverage to local (Palestinian) investors in addition to foreign investors, and expanded the program to cover existing investments with sufficient new capital. MIGA's product does not cover political risk and/or damage or delay at crossings and checkpoints.

¶8. (U) Based on their discussions during this visit, OPIC will work with MEII to determine if the product as currently designed should be offered broadly in the West Bank, or limited to specific sectors. OPIC will also continue discussions with NIC and others to determine whether the product can be broadened to enhance its value and marketability. OPIC aims to have these matters finalized by the end of the first quarter of 2009.

¶9. (U) OPIC has cleared this message.
WALLES